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BEFORE THE ARIZONA CORPORATION COMMISSION  
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2010 DEC -7 A 11:44

ARIZONA CORPORATION COMMISSION  
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN ARIZONA  
CORPORATION, FOR AUTHORITY TO  
IMPLEMENT AN ARSENIC COST  
RECOVERHY MECHANISM SURCHARGE  
FOR ITS VERDE VALLEY SYSTEM

Docket No. W-01445A-08-0440

NOTICE OF FILING RUCO'S REPORT  
ON STEP ONE ARSENIC FILING -  
VERDE VALLEY SYSTEM

On October 12, 2010, Arizona Water Company filed its Step One ACRM filing for its Verde Valley System, seeking a surcharge of \$0.28 to the monthly minimum charge, and \$0.0418 per 1,000 gallons to the commodity rate.

The Residential Utility Consumer Office ("RUCO") hereby files its Report on its audit of the ACRM filing. RUCO recommends a surcharge of \$0.28 to the monthly minimum charge and \$0.0418 per 1,000 gallons to the commodity rate.

RESPECTFULLY SUBMITTED this 7<sup>th</sup> day of December, 2010.

Michelle L. Wood  
Counsel

1 An Original and Thirteen (13) Copies of  
2 the foregoing were filed this 7th day  
of December, 2010 with:

3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

COPIES of the foregoing hand delivered/  
mailed this 7th day of December, 2010 to:

7 Dwight D. Nodes  
8 Asst. Chief Administrative Law Judge  
9 Hearing Division  
10 Arizona Corporation Commission  
11 1200 West Washington  
12 Phoenix, Arizona 85007

Janice Alward, Chief Counsel  
Wesley Van Cleve  
Legal Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

14 Steven M. Olea, Director  
15 Utilities Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

Lori Miller  
Program & Project Specialist II  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

Norman D. James  
Jay L. Shapiro  
Fennemore Craig  
3003 North Central Avenue, Suite 2600  
Phoenix, Arizona 85012-2913

Nicholas J. Enoch  
Jarrett J. Haskovec  
Lubin & Enoch, PC  
349 N. Fourth Avenue  
Phoenix, Arizona 85003

Michele Van Quathem  
Ryley Carlock & Applewhite  
One North Central Avenue, Suite 1200  
Phoenix, Arizona 85004-4417

Brian Bozzo, Compliance &  
Enforcement Manager  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007

By   
Ernestine Gamble

TO: Jodi Jerich, Director  
Dan Pozefsky, Chief Counsel

FROM: Rodney Moore, Public Utilities Analyst V

RE: **ARIZONA WATER – VERDE VALLEY SYSYTEM** - Report on RUCO's audit of the Arizona Water Company filing for an Arsenic Cost Recovery Mechanism (ACRM) Step 1 rate increase for its Verde Valley System.

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AUDIT OBJECTIVE: The purpose and objective of this audit was to verify the capital expenditures of the recently completed arsenic plant in the Verde Valley System, to verify that the plant is in service, verify compliance with Decision Nos. 71845 and 66400 authorizing the ACRM, and verify the accuracy of the requested ACRM surcharge.

AUDIT PROCEDURES: I performed the following audit procedures:

- 1) Verified that all schedules that are required by Decision No. 66400 are included in the application.
- 2) Reviewed Earnings Test for compliance, accuracy, and determined if the Company had passed the Earnings Test.
- 3) Reviewed all arsenic plant invoices, looking for such things as misallocations, unreasonable costs, non-arsenic plant costs, double billings etc.
- 4) Verified accuracy of Task Order totals and grand total.
- 5) Reviewed Revenue Requirement calculations for accuracy and compliance.
- 6) Reviewed rate design for compliance with 50/50 requirement, accuracy of calculations, and checked the reasonableness of the billing determinants by comparing to the prior rate case.
- 7) Verified that the Verde Valley plant was in-service.

Jodi Jerich, Director  
Dan Pozefsky, Chief Counsel  
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AUDIT FINDINGS:       The Verde Valley System ACRM filing is accurate and in compliance with Decision Nos. 71845 and 66400.

AUDIT RECOMMENDATIONS:  
RUCO agrees with the Company's ACRM request.  
RUCO recommended ACRM step 1 rate increases are displayed on attached schedule RUCO ACRM -1.

RUCO ADJUSTMENT TO ACRM - VERDE VALLEY SYSTEM

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] RUCO ADJUSTMENT	[C] RUCO AS ADJUSTED
1	Arsenic Plant Revenue Requirement			
1	Gross Arsenic Plant in Service/Rate Base	\$ 574,585	\$ -	\$ 574,585
2	Accumulated Depreciation Of Arsenic Plant	-	-	-
3	Arsenic Rate Base	\$ 574,585		\$ 574,585
4	Required Rate of Return (Dec. No. 71410)	7.87%		7.87%
5	Required Operating Income	\$ 45,220		\$ 45,220
6	Gross Revenue Conversion Factor (Dec. No. 71410)	1.62860		1.62860
7	Revenue Required - Return on Arsenic Treatment Plant	\$ 73,645		\$ 73,645
8	Depreciation Rate on Arsenic Treatment Plant (Co. Workpapers)	2.86%		2.86%
9	Depreciation on Arsenic Treatment Plant (Co. Workpapers)	\$ 16,430		\$ 16,430
10	Lease Charges - Capital Portion	\$ -	\$ -	\$ -
11	Revenue Required - Capital Costs	\$ 90,075		\$ 90,075
12	Recurring O&M	\$ -	\$ -	\$ -
13	Revenue Required - Recurring O&M Expenses	\$ 90,075		\$ 90,075
14	Revenue Required - Deferred O&M Expenses	\$ -	\$ -	\$ -
15	Total Revenue Required - Step 1	\$ 90,075		\$ 90,075.093

COMPANY PROPOSED

VERDE VALLEY - SEDONA

RATES	CURRENT RATES DEC. NO. 71845	PROPOSED ACRM STEP 1 BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED
16 Basic Monthly Minimum Service Charge				
5/8" X 3/4" Meter	\$ 23.10	\$ 0.28	\$ -	\$ 23.38
Commodity Rates Per 1,000 Gallons				
17 0 to 3,000 gallons	\$ 1.5317	\$ 0.0418	\$ -	\$ 1.5735
18 3,001 to 10,000 gallons	\$ 1.9147	\$ 0.0418	\$ -	\$ 1.9565
19 10,001 gallons and over	\$ 2.3910	\$ 0.0418	\$ -	\$ 2.4328

VERDE VALLEY - PINWOOD/RIMROCK

RATES	CURRENT RATES DEC. NO. 71845	PROPOSED ACRM STEP 1 BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED
20 Basic Monthly Minimum Service Charge				
5/8" X 3/4" Meter	\$ 23.10	\$ 0.28	\$ -	\$ 23.38
Commodity Rates Per 1,000 Gallons				
21 0 to 3,000 gallons	\$ 3.3891	\$ -	\$ -	\$ 3.3891
22 3,001 to 10,000 gallons	\$ 4.2361	\$ -	\$ -	\$ 4.2361
23 10,001 gallons and over	\$ 5.2954	\$ -	\$ -	\$ 5.2954

RUCO PROPOSED

VERDE VALLEY - SEDONA

RATES	CURRENT RATES DEC. NO. 71845	PROPOSED ACRM STEP 1 BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED
24 Basic Monthly Minimum Service Charge				
5/8" X 3/4" Meter	\$ 23.10	\$ 0.28	\$ -	\$ 23.38
Commodity Rates Per 1,000 Gallons				
25 0 to 3,000 gallons	\$ 1.5317	\$ 0.0418	\$ -	\$ 1.5735
26 3,001 to 10,000 gallons	\$ 1.9147	\$ 0.0418	\$ -	\$ 1.9565
27 10,001 gallons and over	\$ 2.3910	\$ 0.0418	\$ -	\$ 2.4328

VERDE VALLEY - PINWOOD/RIMROCK

RATES	CURRENT RATES DEC. NO. 71845	PROPOSED ACRM STEP 1 BASE SURCHARGE	PROPOSED ACRM STEP 2 DEFERRED O&M SURCHARGE	TOTAL PROPOSED
28 Basic Monthly Minimum Service Charge				
5/8" X 3/4" Meter	\$ 23.10	\$ 0.28	\$ -	\$ 23.38
Commodity Rates Per 1,000 Gallons				
29 0 to 3,000 gallons	\$ 3.3891	\$ -	\$ -	\$ 3.3891
30 3,001 to 10,000 gallons	\$ 4.2361	\$ -	\$ -	\$ 4.2361
31 10,001 gallons and over	\$ 5.2954	\$ -	\$ -	\$ 5.2954

Line No.	Growth	Customers	Total Gallons Sold	Gallons Sold Per Cust.	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
1	12/31/2008 (Year 1)	10,453	1,081,427	103										
2	12/31/2009 (Year 2)	10,432	1,075,806	103										
3	Year 2 minus Year 1	(21.0)	(5,621.0)	(0.3)										
4	Percentage Change	-0.20%	-0.52%	-0.32%										
5	Avg Gallons (Col B Ln 1 + Col B Ln 2 + 2)		1,078,616											
6														
7														
8														
9														
10	Meter Size	Average Customers at 31-Dec-09	Estimated Customers at 31-Dec-10	Estimated Average Customers	Monthly Minimum	Minimum Multiples	Equivalent Meters	Monthly Base	Base Total	Monthly Deferred	Deferred Total			
11	5/8-Inch	9481	9,490	9,471	9481	1.0	9,471	0.2800	\$ 31,856.93	\$ -	\$ -			
12	1-Inch	741	741	740	741	2.5	1,850	0.70	\$ 6,224.40	-	-			
13	2-Inch	178	178	178	178	8.0	1,424	2.24	\$ 4,784.64	-	-			
14	3-Inch	10	10	10	10	16.0	160	4.48	\$ 537.60	-	-			
15	4-Inch	9	9	9	9	25.0	225	7.00	\$ 756.00	-	-			
16	6-Inch	2	2	2	2	50.0	100	14.00	\$ 336.00	-	-			
17	8-Inch	2	2	2	2	80.0	160	22.40	\$ 537.60	-	-			
18	10-Inch	0	-	-	0	115.0	-	32.20	\$ -	-	-			
19														
20	Rounding						13		\$ (0.77)					
21														
22	Total	10,432	10,412	10,422			13,403		\$ 45,032.40		\$ -			
23														
24														
25	Calculation of Recurring O&M Surcharge													
26	Total recurring O&M costs (ACRM-2, Pg 1, Col (C) Line 13)	\$	90,075		Commodity Surcharge									
27	Minimum Revenue (Col B Ln 26 + 2)				Minimum Surcharge									
28	Commodity Revenue (Col B Ln 26 + 2)				\$ 45,038									
29														
30	Monthly Increment Per Equivalent Meter													
31	Equivalent Meters (Col F Ln 22 x 12 Months)				160,836									
32														
33	Minimum Surcharge (Col C Ln 27 + Ln 31)				\$ 0.28									
34														
35	Average Gallons (Col B Ln 5)													
36														
37	Commodity Surcharge (Col D Ln 28 + Ln 35)				1,078,616									
38														
39														
40	Calculation of Deferred O&M Surcharge													
41	Total deferred O&M costs (ACRM-2, Pg 1, Col (C) Ln 14)	\$	-		Commodity Surcharge									
42	Monthly Minimum Revenue (Col B Ln 41 + 2)				Minimum Surcharge									
43	Commodity Revenue (Col B Ln 41 + 2)				\$ -									
44														
45	Monthly Increment Per Equivalent Meter													
46	Equivalent Meters (Col F Ln 22 x 12 Months)				160,836									
47														
48	Minimum Surcharge (Col C Ln 42 + Ln 46)				\$ -									
49														
50	Average Gallons (Col B Ln 5)													
51														
52	Commodity Surcharge (Col D Ln 43 + Ln 50)				1,078,616									
					\$ -									